

VILLISCA COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Villisca Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2005 Election)</b>		
Janice Herzberg	President	2006
Stan Schaaf	Vice President	2005
Harold Hutchinson	Board Member	2005
Kerin Wright	Board Member	2006
John A. Baker	Board Member	2007
<b>Board of Education</b>		
<b>(After September 2005 Election)</b>		
Janice Herzberg	President	2006
John A. Baker	Vice President	2007
Kerin Wright	Board Member	2006
Jason Poston	Board Member	2008
Blaine Sunderman	Board Member	2008
<b>School Officials</b>		
Teresa Nook	Superintendent	2006
Shirley Maxwell	District Secretary and Treasurer	2006
Jeff Millholin and Drew Bracken	Attorney	2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
**(a professional corporation)**  
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Villisca Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Villisca Community School District, Villisca, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Villisca Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

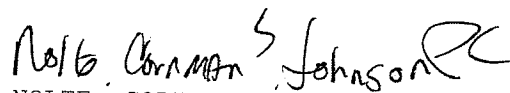
In accordance with Government Auditing Standards, we have also issued our report dated August 14, 2006 on our consideration of the Villisca Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Villisca Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 14, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Villisca Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$3,146,238 in fiscal 2005 to \$3,379,259 in fiscal 2006, while General Fund expenditures increased from \$3,223,761 in fiscal 2005 to \$3,418,677 in fiscal 2006. Although revenues increased in fiscal 2006, the increase wasn't enough to offset the increased fiscal 2006 expenditures. The result is a decrease in the District's General Fund balance from of \$447,937 in fiscal 2005 to a balance of \$408,519 in fiscal 2006, a decrease of 8.8% from the prior year.
- Board approval of \$110,000 of Local Option Sales and Service Tax income toward payment of outstanding General Obligation Bond indebtedness helps reduce the property tax rate for patrons.
- The District received \$26,565 in grants and \$628 in donations to fund the Before/After School Program.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Villisca Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Villisca Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Villisca Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Villisca Community School District Annual Financial Report**

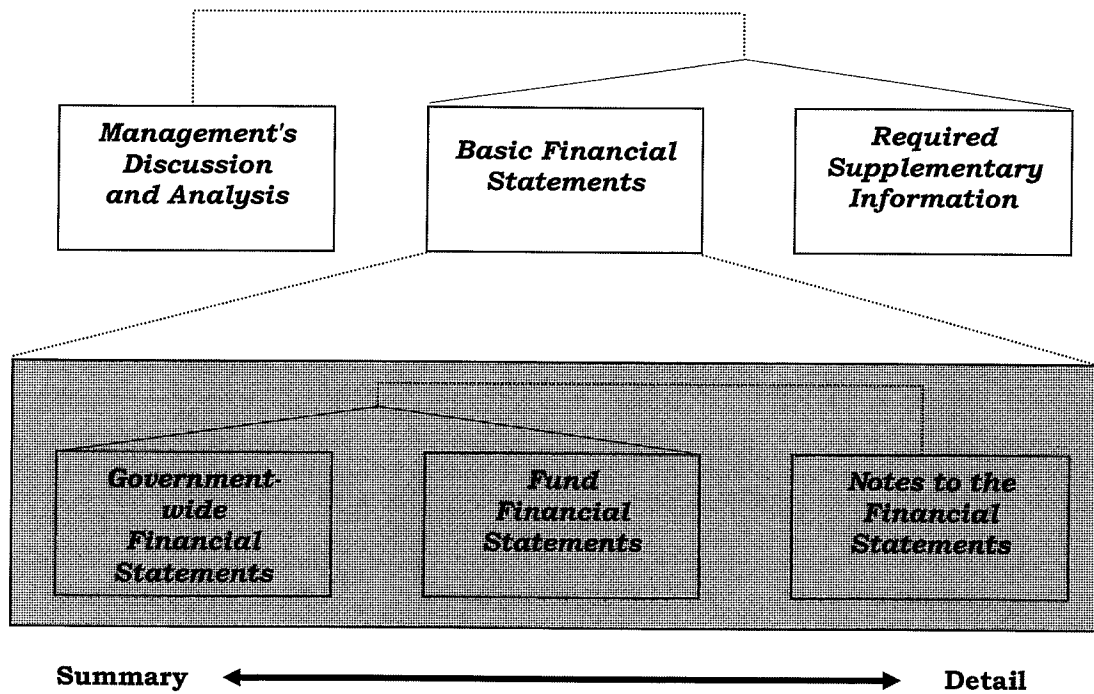


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b>			
<b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid



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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 5,748,540	3,504,906	15,769	17,660	5,764,309	3,522,566	63.64%
Capital assets	3,756,917	3,760,707	26,920	31,215	3,783,837	3,791,922	-0.21%
Total assets	9,505,457	7,265,613	42,689	48,875	9,548,146	7,314,488	30.54%
Long-term obligations	5,005,000	2,900,000	0	0	5,005,000	2,900,000	72.59%
Other liabilities	1,786,448	1,704,499	1,368	1,774	1,787,816	1,706,273	4.78%
Total liabilities	6,791,448	4,604,499	1,368	1,774	6,792,816	4,606,273	47.47%
Net assets:							
Invested in capital assets, net of related debt	934,000	869,471	26,920	31,215	960,920	900,686	6.69%
Restricted	1,343,593	1,323,131	0	0	1,343,593	1,323,131	1.55%
Unrestricted	436,416	468,512	14,401	15,886	450,817	484,398	-6.93%
Total net assets	\$ 2,714,009	2,661,114	41,321	47,101	2,755,330	2,708,215	1.74%

The District's combined net assets increased by 1.74%, or approximately \$47,115, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$20,462 or 1.55% over to the prior year. The increase was primarily a result of controlled spending in the Capital Projects Fund and Special Revenue Management Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$33,581, or 6.93%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 285,256	228,412	97,802	95,341	383,058	323,753	18.32%
Operating grants and contributions and restricted interest	511,717	487,014	75,754	75,671	587,471	562,685	4.40%
Capital grants and contributions and restricted interest	0	25,000	0	0	0	25,000	100.00%
General revenues:							
Property tax	1,397,974	1,432,384	0	0	1,397,974	1,432,384	-2.40%
Local option sales and service tax	220,329	177,306	0	0	220,329	177,306	24.26%
Unrestricted state grants	1,625,822	1,454,309	0	0	1,625,822	1,454,309	11.79%
Other	118,685	49,340	49	41	118,734	49,381	140.44%
Total revenues	4,159,783	3,853,765	173,605	171,053	4,333,388	4,024,818	7.67%
Program expenses:							
Governmental activities:							
Instructional	2,465,935	2,282,787	0	0	2,465,935	2,282,787	8.02%
Support services	1,189,946	1,024,199	0	0	1,189,946	1,024,199	16.18%
Non-instructional programs	277	32,197	179,385	168,574	179,662	200,771	-10.51%
Other expenses	450,730	409,233	0	0	450,730	409,233	10.14%
Total expenses	4,106,888	3,748,416	179,385	168,574	4,286,273	3,916,990	9.43%
Changes in net assets	52,895	105,349	(5,780)	2,479	47,115	107,828	-56.31%
Net assets beginning of year	2,661,114	2,555,765	47,101	44,622	2,708,215	2,600,387	4.15%
Net assets end of year	\$ 2,714,009	2,661,114	41,321	47,101	2,755,330	2,708,215	1.74%

In fiscal 2006, property tax and unrestricted state grants account for 72.7% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$4.33 million of which \$4.16 million was for governmental activities and \$.17 million was for business type activities.

As shown in FigureA-4, the District as a whole experienced a 7.67% increase in revenues and a 9.43% increase in expenses. The increase in expenses was a result of the increases in the negotiated salaries and benefits.

### Governmental Activities

Revenues for governmental activities were \$4,159,783 and expenses were \$4,106,888. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

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Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,465,935	1,796,691
Support services	1,189,946	1,189,434
Non-instructional	277	277
Other expenses	450,730	323,513
Totals	<u>\$ 4,106,888</u>	<u>3,309,915</u>

- The cost financed by users of the District's programs was \$285,256.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$511,717.
- The net cost of governmental activities was financed with \$1,397,974 in property tax, \$220,329 in local option sales and service tax, \$1,625,822 in unrestricted state grants and \$100,868 in interest income.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$173,605 and expenses were \$179,385. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Villisca Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$3,961,538, above last year's ending fund balances of a \$1,786,107.

### **Governmental Fund Highlights**

- The District's decreasing General Fund financial position is the product of many factors. Reduction in tax levy during the year was offset by an increase in grant revenues allowing total revenues to increase for the year. Although the District saw an increase in total revenues, the increase was not enough to offset the increase in expenditures ensuring the financial position of the District's General Fund decrease.
- The Activity fund and Expendable Trust fund combined balance decreased from \$240,890 in 2005, to \$228,975 in 2006, due to decreased revenues in both funds.
- The Management Fund balance increased from \$188,152 in 2005 to \$209,271 in 2006. Despite the decrease in revenues and increase in expenses, revenues still exceeded expenses allowing the fund balance to increase.
- The Physical Plant and Equipment Levy Fund (PPEL) balance decreased from \$330,862 to \$313,308. Major purchases from this fund during the year were a bus for \$54,250 and an air conditioner for the ag room at the cost of \$910. The remaining balance in this fund will be needed for repairs in the Enarson Building, acquiring new vehicles for the transportation department, and major technology purchases.

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- The District's Capital Projects Fund increased from \$542,709 in 2005, to \$578,843 in 2006, due to an increase in local option sales and services tax during the current year. Funds from this fund were used for remodeling the boys bathroom at the elementary building, major roof repairs at the high school and elementary buildings and a new heat pump in the kitchen. All four counties are now participating in this tax. Remaining funds will be used towards a new boiler at the elementary building and replacing the bus barn.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets decreased from \$47,101 at June 30, 2005 to \$41,321 at June 30, 2006, representing a decrease of approximately 12.3%. For fiscal 2006, the District did not increase meal prices but additional funds were received from the ala carte program.

## **BUDGETARY HIGHLIGHTS**

The District's revenues were \$284,329 more than budgeted revenues, a variance of 7.0%. The most significant variances resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily due to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional areas due to the timing of expenditures paid.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2006, the District had invested \$3.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 0.213% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$142,090.

The original cost of the District's capital assets was \$5,673,758. Governmental funds account for \$5,592,439 with the remainder of \$81,319 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the improvements other than building category. This category totaled \$12,672 at June 30, 2006, compared to \$15,780 reported at June 30, 2005. This decrease resulted from the current year depreciation expense.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 18,650	18,650	0	0	18,650	18,650	0.00%
Buildings	3,544,414	3,557,274	0	0	3,544,414	3,557,274	-0.36%
Improvements other than buildings	12,672	15,780	0	0	12,672	15,780	-19.70%
Machinery and equipment	181,181	169,003	26,920	31,215	208,101	200,218	3.94%
Total	<u>\$ 3,756,917</u>	<u>3,760,707</u>	<u>26,920</u>	<u>31,215</u>	<u>3,783,837</u>	<u>3,791,922</u>	<u>-0.213%</u>

### Long-Term Debt

At June 30, 2006, the District had long-term debt outstanding of \$5,005,000 in general obligation bonds. This represents an increase of approximately 72.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
General obligation bonds	<u>\$ 5,005,000</u>	<u>2,900,000</u>	<u>72.6%</u>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced declining enrollment for a few years, the District expects the enrollment to remain stable.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) was in the first year of a ten-year phase out.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Board Secretary/Business Manager, Villisca Community School District, 406 E 3<sup>rd</sup> St., Villisca, Iowa, 50864.

## BASIC FINANCIAL STATEMENTS

VILLISCA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 1,964,355	11,764	1,976,119
U.S. Treasury Securities on deposit with escrow agent	2,183,255	0	2,183,255
Receivables:			
Property tax:			
Delinquent	29,652	0	29,652
Succeeding year	1,420,154	0	1,420,154
Income surtax	41,093	0	41,093
Accounts	247	59	306
Due from other governments	109,784	0	109,784
Inventories	0	3,946	3,946
Capital assets, net of accumulated depreciation (Note 4)	3,756,917	26,920	3,783,837
<b>Total Assets</b>	<u>9,505,457</u>	<u>42,689</u>	<u>9,548,146</u>
<b>Liabilities</b>			
Accounts payable	25,956	0	25,956
Salaries and benefits payable	299,799	0	299,799
Accrued interest payable	40,539	0	40,539
Deferred revenue:			
Succeeding year property tax	1,420,154	0	1,420,154
Unearned revenues	0	1,368	1,368
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds	135,000	0	135,000
Portion due after one year:			
General obligation bonds	4,870,000	0	4,870,000
<b>Total Liabilities</b>	<u>6,791,448</u>	<u>1,368</u>	<u>6,792,816</u>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	934,000	26,920	960,920
Restricted for:			
Talented and gifted	12,078	0	12,078
Wellness	1,118	0	1,118
Capital projects	578,843	0	578,843
Physical plant & equipment levy	313,308	0	313,308
Management levy	209,271	0	209,271
Other special revenue purposes	228,975	0	228,975
Unrestricted	436,416	14,401	450,817
<b>Total Net Assets</b>	<u>\$ 2,714,009</u>	<u>41,321</u>	<u>2,755,330</u>

SEE NOTES TO FINANCIAL STATEMENTS.



VILLISCA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					Total
Governmental activities:					
Instruction:					
Regular instruction	\$ 1,596,651	32,781	361,880	(1,201,990)	0
Special instruction	438,880	25,381	22,255	(391,244)	0
Other instruction	430,404	226,947	0	(203,457)	0
	2,465,935	285,109	384,135	(1,796,691)	0
Support services:					
Student services	107,231	0	0	(107,231)	0
Instructional staff services	55,932	0	0	(55,932)	0
Administration services	509,316	0	0	(509,316)	0
Operation and maintenance of plant services	321,051	0	0	(321,051)	0
Transportation services	196,416	147	365	(195,904)	0
	1,189,946	147	365	(1,189,434)	0
Non-instructional services	277	0	0	(277)	0
Other expenditures:					
Facilities acquisitions	13,924	0	0	(13,924)	0
Long-term debt interest	213,866	0	0	(213,866)	0
AEA flowthrough	127,217	0	127,217	0	0
Depreciation(unallocated)*	95,723	0	0	(95,723)	0
	450,730	0	127,217	(323,513)	0
Total governmental activities	4,106,888	285,256	511,717	(3,309,915)	0
Business-Type activities:					
Non-instructional programs:					
Nutrition services	179,385	97,802	75,754	0	(5,829)
Total business-type activities	179,385	97,802	75,754	0	(5,829)
Total	\$ 4,286,273	383,058	587,471	(3,309,915)	(5,829)
General Revenues:					
Property tax levied for:					
General purposes			\$ 1,187,953	0	1,187,953
Debt services			124,888	0	124,888
Capital outlay			85,133	0	85,133
Local option sales and service tax			220,329	0	220,329
Unrestricted state grants			1,625,822	0	1,625,822
Unrestricted investment earnings			100,868	49	100,917
Other			17,817	0	17,817
Total general revenues			3,362,810	49	3,362,859
Changes in net assets			52,895	(5,780)	47,115
Net assets beginning of year			2,661,114	47,101	2,708,215
Net assets end of year			\$ 2,714,009	41,321	2,755,330

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
<b>Assets</b>					
Cash and pooled investments	\$ 660,137	518,790	36,623	748,805	1,964,355
U.S. Treasury Securities on deposit with escrow agent	0	0	2,183,255	0	2,183,255
Receivables:					
Property tax					
Delinquent	24,250	0	2,744	2,658	29,652
Succeeding year	1,186,935	0	124,274	108,945	1,420,154
Income surtax	0	0	0	41,093	41,093
Accounts	64	0	0	183	247
Due from other governments	49,731	60,053	0	0	109,784
<b>Total Assets</b>	<b>\$ 1,921,117</b>	<b>578,843</b>	<b>2,346,896</b>	<b>901,684</b>	<b>5,748,540</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 25,916	0	0	40	25,956
Salaries and benefits payable	299,747	0	0	52	299,799
Deferred revenue:					
Succeeding year property tax	1,186,935	0	124,274	108,945	1,420,154
Income surtax	0	0	0	41,093	41,093
Total liabilities	1,512,598	0	124,274	150,130	1,787,002
Fund balances:					
Reserved for:					
Debt service	0	0	2,222,622	0	2,222,622
Talented and gifted	12,078	0	0	0	12,078
Wellness	1,118	0	0	0	1,118
Unreserved:					
Designated for cash flow	220,000	0	0	0	220,000
Undesignated	175,323	578,843	0	751,554	1,505,720
Total fund balances	408,519	578,843	2,222,622	751,554	3,961,538
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,921,117</b>	<b>578,843</b>	<b>2,346,896</b>	<b>901,684</b>	<b>5,748,540</b>

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2006

<b>Total fund balances of governmental funds (page 15)</b>	\$ 3,961,538
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,756,917
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(40,539)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	41,093
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(5,005,000)
<b>Net assets of governmental activities (page 13)</b>	<u><u>\$ 2,714,009</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 1,103,684	220,329	124,888	169,402	1,618,303
Tuition	58,162	0	0	0	58,162
Other	79,949	18,574	38,845	202,087	339,455
State sources	1,936,601	0	91	89	1,936,781
Federal sources	200,758	0	0	0	200,758
Total revenues	3,379,154	238,903	163,824	371,578	4,153,459
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular instruction	1,579,775	0	0	14,941	1,594,716
Special instruction	438,880	0	0	0	438,880
Other instruction	241,766	0	0	184,536	426,302
	2,260,421	0	0	199,477	2,459,898
Support services:					
Student services	106,954	0	0	277	107,231
Instructional staff services	51,725	0	0	207	51,932
Administration services	443,913	0	56,629	8,774	509,316
Operation and maintenance of plant services	288,971	0	0	28,503	317,474
Transportation services	139,476	0	0	82,732	222,208
	1,031,039	0	56,629	120,493	1,208,161
Non-instructional	0	0	0	277	277
Other expenditures:					
Facilities acquisitions	0	92,769	0	910	93,679
Long-term debt:					
Principal	0	0	130,000	0	130,000
Interest and fiscal charges	0	0	200,120	0	200,120
AEA flowthrough	127,217	0	0	0	127,217
	127,217	92,769	330,120	910	551,016
Total expenditures	3,418,677	92,769	386,749	321,157	4,219,352
Excess(deficiency) of revenues over(under) expenditures	(39,523)	146,134	(222,925)	50,421	(65,893)
Other financing sources(uses):					
Transfers in	0	0	168,771	0	168,771
Transfers out	0	(110,000)	0	(58,771)	(168,771)
Sale of equipment	105	0	0	0	105
Refunding debt issued	0	0	2,235,000	0	2,235,000
Premium on bonds	0	0	6,219	0	6,219
Total other financing sources(uses)	105	(110,000)	2,409,990	(58,771)	2,241,324
Net change in fund balances	(39,418)	36,134	2,187,065	(8,350)	2,175,431
Fund balances beginning of year	447,937	542,709	35,557	759,904	1,786,107
Fund balances end of year	\$ 408,519	578,843	2,222,622	751,554	3,961,538

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 2,175,431

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 134,005	
Depreciation expense	(137,795)	(3,790)

Proceeds of long-term debt liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

Issued	\$ (2,235,000)	
Repaid	130,000	(2,105,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(13,746)

Changes in net assets of governmental activities (page 14)

\$ 52,895

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 11,764
Accounts receivable	59
Inventories	3,946
Capital assets, net of accumulated depreciation	<u>26,920</u>
<b>Total Assets</b>	<u>42,689</u>
<b>Liabilities</b>	
Unearned revenues	<u>1,368</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	26,920
Unrestricted	<u>14,401</u>
<b>Total Net Assets</b>	<u>\$ 41,321</u>

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 97,802
TOTAL OPERATING REVENUES	<u>97,802</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	60,722
Benefits	8,023
Services	2,262
Supplies	104,083
Depreciation	4,295
TOTAL OPERATING EXPENSES	<u>179,385</u>
OPERATING LOSS	<u>(81,583)</u>
NON-OPERATING REVENUES:	
Interest	49
State sources	2,012
Federal sources	73,742
TOTAL NON-OPERATING REVENUES	<u>75,803</u>
Change in net assets	(5,780)
Net assets beginning of year	<u>47,101</u>
Net assets end of year	<u><u>\$ 41,321</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 87,105
Cash received from miscellaneous operating activities	10,232
Cash payments to employees for services	(68,745)
Cash payments to suppliers for goods or services	(100,076)
Net cash used in operating activities	<u>(71,484)</u>
Cash flows from non-capital financing activities:	
State grants received	2,012
Federal grants received	66,265
Net cash provided by non-capital financing activities	<u>68,277</u>
Cash flows from investing activities:	
Interest on investments	<u>49</u>
Net decrease in cash and cash equivalents	(3,158)
Cash and cash equivalents at beginning of year	<u>14,922</u>
Cash and cash equivalents at end of year	<u>\$ 11,764</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (81,583)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	7,477
Depreciation	4,295
Increase in inventories	(1,208)
Increase in accounts receivable	(59)
Decrease in unearned revenue	(406)
Net cash used in operating activities	<u>\$ (71,484)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 11,764</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$7,477.

SEE NOTES TO FINANCIAL STATEMENTS.



VILLISCA COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**(1) Summary of Significant Accounting Policies**

The Villisca Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Villisca, Iowa, and the predominate agricultural territory in Adams, Montgomery, Page and Taylor Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Villisca Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Villisca Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Adams, Montgomery, Page and Taylor County Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

Salaries and benefits payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Designated Cashflow - In the governmental fund financial statements, the District's board designated \$220,000 of the General Fund's unreserved balance for cashflow purposes.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 632,522</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Securities are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Securities are stated at fair value. Securities traded on a national or international exchange are valued the last reported sales price at current exchange rates.

At June 30, 2006, the District had investments in U.S. Treasury Securities as follows:

	<u>Fair Value</u>
U.S. Treasury Securities	<u>\$ 2,183,255</u>

**(3) Transfers**

The detail of transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 110,000
	Special Revenue:	
	Physical Plant and	
Debt Service	Equipment Levy	<u>58,771</u>
Total		<u>\$ 168,771</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

#### (4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 18,650	0	0	18,650
Total capital assets not being depreciated	18,650	0	0	18,650
Capital assets being depreciated:				
Buildings	4,552,983	79,755	0	4,632,738
Land improvements	109,264	0	0	109,264
Machinery and equipment	777,537	54,250	0	831,787
Total capital assets being depreciated	5,439,784	134,005	0	5,573,789
Less accumulated depreciation for:				
Buildings	995,709	92,615	0	1,088,324
Land improvements	93,484	3,108	0	96,592
Machinery and equipment	608,534	42,072	0	650,606
Total accumulated depreciation	1,697,727	137,795	0	1,835,522
Total capital assets being depreciated, net	3,742,057	(3,790)	0	3,738,267
Governmental activities capital assets, net	\$ 3,760,707	(3,790)	0	3,756,917
Business-type activities:				
Machinery and equipment	\$ 81,319	0	0	81,319
Less accumulated depreciation	50,104	4,295	0	54,399
Business-type activities capital assets, net	\$ 31,215	(4,295)	0	26,920

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 1,935
Other	4,102
Support services:	
Instructional staff services	4,000
Operation and maintenance of plant services	3,577
Transportation	28,458
	42,072
Unallocated depreciation	95,723
Total governmental activities depreciation expense	\$ 137,795
Business-type activities:	
Food services	\$ 4,295



(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 2,900,000	2,235,000	130,000	5,005,000	135,000

General Obligation

On December 1, 2005, the District issued \$2,235,000 of general obligation refunding bonds, with interest rates ranging from 3.75% to 4.00%, for a crossover refunding of a portion of the general obligation bonds issued May 1, 2000. The District entered in to an escrow agreement whereby the proceeds from the general obligation refunding bonds were converted into U.S. Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$2,180,000 principal on the refunded general obligation bonds when they become callable on May 1, 2011 and on the interest from December 1, 2005 to May 1, 2011 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished.

The District refunds the bonds to reduce its total debt service payments by approximately \$165,829 and to obtain an economic gain(difference between the present values of the debt service payments on the old and new debt) of approximately \$113,527. Annual debt service requirements to maturity of the general obligation refunding bonds are as follows:

Year Ending June 30,	Interest Rate	Bond issue dated May 1, 2000		
		Principal	Interest	Total
2007	6.00	% \$ 135,000	155,950	290,950
2008	6.00	140,000	147,850	287,850
2009	6.00	155,000	139,450	294,450
2010	5.85	160,000	130,150	290,150
2011	5.25	170,000	120,790	290,790
2012-2016	5.30-5.60	995,000	458,323	1,453,323
2017-2020	5.65-5.75	1,015,000	149,540	1,164,540
Subtotal		\$ 2,770,000	1,302,053	4,072,053

Year Ending June 30,	Interest Rate	Bond issue dated December 1, 2005		
		Principal	Interest	Total
2007	-	% \$ 0	87,285	87,285
2008	-	0	87,285	87,285
2009	-	0	87,285	87,285
2010	-	0	87,285	87,285
2011	4.00	185,000	87,285	272,285
2012-2016	3.75-4.00	1,050,000	320,225	1,370,225
2017-2020	3.85-4.00	1,000,000	101,765	1,101,765
Subtotal		\$ 2,235,000	858,415	3,093,415
Total		\$ 5,005,000	1,629,545	6,099,545

**(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$118,768, \$112,207, and \$109,635, respectively, equal to the required contributions for each year.

**(7) Risk Management**

Villisca Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$127,217 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(9) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the support services functional area exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

VILLISCA COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,015,920	97,851	2,113,771	1,777,972	1,777,972	335,799
Intermediate sources	0	0	0	5,000	5,000	(5,000)
State sources	1,936,781	2,012	1,938,793	2,018,763	2,018,763	(79,970)
Federal sources	200,758	73,742	274,500	241,000	241,000	33,500
Total revenues	4,153,459	173,605	4,327,064	4,042,735	4,042,735	284,329
Expenditures:						
Instruction	2,459,898	0	2,459,898	3,275,324	3,275,324	815,426
Support services	1,208,161	0	1,208,161	1,114,085	1,114,085	(94,076)
Non-instructional programs	277	179,385	179,662	260,893	260,893	81,231
Other expenditures	551,016	0	551,016	1,198,547	1,198,547	647,531
Total expenditures	4,219,352	179,385	4,398,737	5,848,849	5,848,849	1,450,112
Excess(deficiency) of revenues over(under) expenditures	(65,893)	(5,780)	(71,673)	(1,806,114)	(1,806,114)	1,734,441
Other financing sources, net	2,241,324	0	2,241,324	0	0	2,241,324
Excess(deficiency) of revenues and other financing sources over(under) expenditures	2,175,431	(5,780)	2,169,651	(1,806,114)	(1,806,114)	3,975,765
Balance beginning of year	1,786,107	47,101	1,833,208	1,857,345	1,857,345	(24,137)
Balance end of year	\$ 3,961,538	41,321	4,002,859	51,231	51,231	3,951,628

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

VILLISCA COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the support services functional area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION



VILLISCA COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total
<b>Assets</b>					
Cash and pooled investments	\$ 207,419	58,431	312,502	170,453	748,805
Receivables:					
Property tax:					
Current year delinquent	1,852	0	806	0	2,658
Succeeding year	72,000	0	36,945	0	108,945
Income surtax	0	0	41,093	0	41,093
Accounts	0	0	0	183	183
<b>Total Assets</b>	<b>\$ 281,271</b>	<b>58,431</b>	<b>391,346</b>	<b>170,636</b>	<b>901,684</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 0	40	0	0	40
Salary and benefits payable	0	52	0	0	52
Deferred revenue:					
Succeeding year property tax	72,000	0	36,945	0	108,945
Income surtax	0	0	41,093	0	41,093
Total liabilities	72,000	92	78,038	0	150,130
Fund Balances:					
Unreserved fund balances	209,271	58,339	313,308	170,636	751,554
<b>Total Liabilities and Fund Balances</b>	<b>\$ 281,271</b>	<b>58,431</b>	<b>391,346</b>	<b>170,636</b>	<b>901,684</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



VILLISCA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED JUNE 30, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total
REVENUES:					
Local sources:					
Local tax	\$ 84,269	0	85,133	0	169,402
Other	9,865	174,006	11,217	6,999	202,087
State sources	62	0	27	0	89
TOTAL REVENUES	94,196	174,006	96,377	6,999	371,578
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	7,186	0	0	7,755	14,941
Other instruction	0	184,536	0	0	184,536
	7,186	184,536	0	7,755	199,477
Support services:					
Student support services	277	0	0	0	277
Instructional staff services	207	0	0	0	207
Administration services	8,774	0	0	0	8,774
Operation and maintenance of plant services	28,503	0	0	0	28,503
Transportation services	27,853	629	54,250	0	82,732
	65,614	629	54,250	0	120,493
Non-instructional	277	0	0	0	277
Other expenditures:					
Facility acquisition	0	0	910	0	910
TOTAL EXPENDITURES	73,077	185,165	55,160	7,755	321,157
Excess(deficiency) of revenues over(under) expenditures	21,119	(11,159)	41,217	(756)	50,421
Other financing uses:					
Transfers out	0	0	(58,771)	0	(58,771)
Excess(deficiency) of revenues over(under) expenditures and other financing uses	21,119	(11,159)	(17,554)	(756)	(8,350)
Fund balances beginning of year	188,152	69,498	330,862	171,392	759,904
Fund balances end of year	\$ 209,271	58,339	313,308	170,636	751,554

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

VILLISCA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	8,801	2,476	6,608	4,669
Student activity pop	6,034	13,559	14,814	4,779
Activity tickets	196	1,830	1,620	406
Secondary student club	11,102	758	3,179	8,681
Elementary club K-6	13,361	1,650	4,709	10,302
National honor society	7	1,018	1,016	9
Annual staff	269	5,173	4,259	1,183
Drama club	850	2,328	2,906	272
Music boosters	6,180	1,167	6,166	1,181
Dance team	4,173	3,261	3,037	4,397
Athletics	0	5,664	5,661	3
Track	0	1,612	1,609	3
Golf	0	798	776	22
Basketball	7,028	8,934	6,765	9,197
Football	0	8,341	9,336	(995)
Softball/baseball	(4,907)	10,427	5,560	(40)
Volleyball	1,968	2,538	1,820	2,686
Y-teens	4,252	11,267	11,780	3,739
FFA	1,353	34,213	34,000	1,566
Science club	1,792	5,653	6,164	1,281
Cheerleaders	1,451	1,409	2,421	439
Librarians	550	1,878	2,270	158
Student council	1,164	4,038	3,801	1,401
JH boosters	97	106	52	151
Destination Image	0	15,552	14,966	586
T.O.U.C.H	383	0	0	383
Class of 2004	445	0	445	0
Class of 2005	540	976	1,516	0
Class of 2006	1,967	11,760	13,727	0
Class of 2007	441	12,804	12,222	1,023
Class of 2008	50	1,632	1,141	541
Class of 2009	(58)	958	664	236
Class of 2010	30	102	57	75
Class of 2011	(21)	124	77	26
Class of 2012	0	0	21	(21)
Total	\$ 69,498	174,006	185,165	58,339

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

VILLISCA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 1,618,303	1,610,022	1,492,769	1,572,590
Tuition	58,162	45,031	97,588	61,976
Other	339,455	212,189	226,065	243,744
State sources	1,936,781	1,734,318	1,719,088	1,694,874
Federal sources	200,758	232,005	175,949	214,613
Total	<u>\$ 4,153,459</u>	<u>3,833,565</u>	<u>3,711,459</u>	<u>3,787,797</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,594,716	1,380,388	1,235,610	1,403,393
Special instruction	438,880	459,736	569,350	484,946
Other instruction	426,302	437,493	371,371	365,708
Support services:				
Student services	107,231	76,683	78,347	84,707
Instructional staff services	51,932	43,227	50,223	57,353
Administration services	509,316	444,100	434,571	408,580
Operation and maintenance of plant services	317,474	261,083	265,591	221,152
Transportation services	222,208	197,724	198,894	142,585
Central services	0	0	4,286	2,274
Non-instructional:				
Food service	277	254	233	200
Community service & education operations	0	31,943	29,319	26,965
Other expenditures:				
Facilities acquisitions	93,679	104,824	51,122	70,412
Long Term Debt:				
Principal	130,000	120,000	115,000	105,000
Interest	200,120	171,350	178,150	184,450
AEA flow-through	127,217	120,890	124,144	132,057
Total	<u>\$ 4,219,352</u>	<u>3,849,695</u>	<u>3,706,211</u>	<u>3,689,782</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
Villisca Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Villisca Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 14, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Villisca Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Villisca Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial

instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Villisca Community School District and other parties to whom Villisca Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Villisca Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Nolte, Cornman & Johnson*  
NOLTE, CORNMAN & JOHNSON, P.C.

August 14, 2006

VILLISCA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account.

Recommendation - The interest earned each year should be allocated at least on an annual basis to the individual activity accounts.

Response - We will distribute the interest earned each year on an annual basis to appropriate activity accounts.

Conclusion - Response accepted.

- I-C-06 Timely Deposits - We noted during our audit that deposits for the Student Activity fund were prepared but may not be taken to the bank for deposit until several days later.

Recommendation - All receipts should be deposited when received. The district should review procedures to ensure that the deposits are made timely.

Response - We will review the timing of our activity deposits and make any necessary adjustments as soon as possible.

Conclusion - Response accepted.

- I-D-06 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches.

Response - Beginning with the 2007 fiscal year, the District has implemented the expectation that the athletic director will keep track of hours worked for non-certified staff coaches.

Conclusion - Response accepted.

- I-E-06 Gate Admissions - We noted during our audit that the gate admissions were not always reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - Beginning with the 2007 fiscal year, those doing gate admission must reconcile receipts with ticket also.

Conclusion - Response accepted.

- I-F-06 Student Activity Fund - During our audit we questioned the propriety of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). More specifically, Weekly Readers were purchased from the Student Activity Fund for the students use in the classroom.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. Any revenues and expenditures not allowable in the Student Activity Fund should be recorded in the fund most allowable.

Response - Beginning with the 2007 fiscal year, the student activity fund will account for financial transactions related to co-curricular and extra curricular activities. A journal entry was made to correct previous entries.

Conclusion - Response accepted.

VILLISCA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 exceeded the amount budgeted in the support services functional area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dick Wright, substitute bus driver Owner of Wrights Parts & Service	Repairs, supplies	\$680

In accordance with Attorney's General Opinion dated July 2, 1990, the above transactions do not appear to represent a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposits and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit.

Recommendation - The District should contact the appropriate bank and rectify the situation.



Response - The financial institution where the certificate of deposit was purchased was contacted and the proper rate of interest is now being received.

Conclusion - Response accepted.

II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.